The New York Times https://www.nytimes.com/2020/10/30/us/elections/after-trump-accuses-doctors-of-profiteering-medical-professionals-push-back.html

After Trump accuses doctors of profiteering, medical professionals push back.

By Jacey Fortin

Published Oct. 30, 2020 Updated Dec. 24, 2020

At a rally in Michigan on Friday, President Trump repeated an extraordinary and unfounded claim that American doctors were profiteering from coronavirus deaths.

"You know our doctors get more money if somebody dies from Covid," Mr. Trump said, adding that in Germany and other countries, deaths were characterized differently if there appeared to be multiple causes.

"With us, when in doubt, choose Covid," he said.

Medical professionals and organizations quickly denounced those comments and lauded the work of nurses, doctors and other health care workers, many of whom have risked their lives and worried about the health of their families as they cared for people who were infected with the coronavirus.

"The suggestion that doctors — in the midst of a public health crisis — are overcounting Covid-19 patients or lying to line their pockets is a malicious, outrageous and completely misguided charge," Dr. Susan R. Bailey, the president of the American Medical Association, said in a statement on Friday.

“Rather than attacking us and lobbing baseless charges at physicians, our leaders should be following the science and urging adherence to the public health steps we know work — wearing a mask, washing hands and practicing physical distancing,” she added.

Misleading claims about inflated death counts related to the coronavirus surfaced as early as April.

Coronavirus cases are rising in Michigan as a third wave of infections spreads across the country. This week, the state recorded a 91 percent increase in new cases from the average two weeks earlier.

Mr. Trump made a similar false claim about physicians at a campaign rally on Oct. 24 in Wisconsin — another state that has seen a surge in cases this month — when he said that “doctors get more money, and hospitals get more money” for reporting more deaths due to the coronavirus.

That prompted a backlash from organizations including the Society of Hospital Medicine, the Council of Medical Specialty Societies and the American College of Obstetricians and Gynecologists.

“These baseless claims not only do a disservice to our health care heroes but promulgate the dangerous wave of misinformation which continues to hinder our nation’s efforts to get the pandemic under control and allow our nation to return to normalcy,” the American College of Emergency Physicians said in a statement on Sunday.

On the campaign trail, the president has often declared that the virus was vanishing — even as case counts soared — and attacked Democratic governors and other local officials for keeping public-health restrictions in place.

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HEALTHCARE**DIVE**

DIVE BRIEF

For most of COVID-19 pandemic, major for-profit hospitals' operating margins exceeded years prior

Published Dec. 5, 2022

Hailey Mensik

Illustration: Xavier Lalanne-Tauzia for Industry Dive

Dive Brief:

- Operating margins at the three largest for-profit healthcare systems in the country — HCA Healthcare, Tenet Healthcare and Community Health Systems — have exceeded pre-pandemic levels for the majority of the COVID-19 pandemic, according to a report out Monday from the Kaiser Family Foundation.
- HCA and Tenet in particular have had high operating margins of at least 10% and at least 5%, respectively, in nine out of 11 quarters.
- CHS' operating margins have been less than 5% in nine out of 11 quarters, though still exceeding pre-pandemic levels for most of the COVID-19 crisis, according to KFF.

Dive Insight:

While other recent reports have pointed to declining operating margins for operators facing heightened expenses amid record

inflation and staffing shortages, KFF's analysis suggests some major for-profit systems have been mostly unaffected.

HCA, Tenet and CHS are the three largest for-profit health systems in the country, together accounting for about 8% of community hospital beds in the U.S. in 2020, according to the report.

Operating margins in KFF's report reflect the profit margins earned on patient care and other operations, and include COVID-19 relief funds. They exclude income taxes and nonrecurring revenue and expenses like facility sales.

Over the course of the pandemic, HCA has fared the best, with operating margins of at least 10% during the majority of the pandemic, or in nine out of 11 quarters, according to the report.

That means revenue exceeded operating expenses by at least 10% for the chain for most of the pandemic.

During the first two quarters of 2020, HCA and Tenet dipped below 2019 operating margins. CHS did, too, in the first quarter of 2020, then again in the second quarter of 2022.

Ultimately, as of Q3 of this year, HCA's operating margins were 11.4%, Tenet's were 8.4%, and CHS' were 1.2%, according to the report.

CHS did have lower margins than the other systems prior to the pandemic, the KFF report noted.

Those chains' stock prices have also fluctuated widely throughout the pandemic.

Stock prices rose dramatically during the first two years of the pandemic, and at their peaks, HCA's stock price rose by 88% relative to January 2020, while Tenet's rose by 154% and CHS' rose by 383%.

This year stock prices took a hit, with HCA and Tenet's up 45% and 1%, respectively, compared to January 2020, as of Nov. 8. CHS' stock price was down 11.5% since January 2020.

HCA's stock price rose by a greater amount than the S&P 500 during that period, the KFF report said. The S&P 500 slightly outperformed Tenet stock and significantly outperformed CHS stock in that time.

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After the Pandemic, Nurses and Other Healthcare Workers Are Demanding More … And Getting It

Posted in Blog (https://hcfi.georgetown.edu/category/blog/) What's New (https://hcfi.georgetown.edu/category/whats-new/)

- **Carol B. Davis**, Associate Director, HCFI
- *November 2024*

From 2022 to late 2024, thousands of healthcare workers in nearly twenty states have walked off the job, demanding better compensation, higher staffing levels, and more responsive management.

In many ways, this **post-pandemic epidemic** should have been predicted. **Workers deemed "essential" by federal and state leaders during the COVID-19 pandemic now find they are saddled with hangovers from the global crisis**: **staffing shortages** that have led to **higher workloads**, **increased professional liability** as overworked employees with heavier workloads pose greater risks to patient safety, and record rates of **staff burnou**t, **turnover**, **frustration**, **safety fears**, and **weakened patient care for colleagues who remain**.

The vicious cycle started before March 2020, but now that most pandemic special accommodations such as workplace flexibility have expired, the high-pressure work environment and increasingly tense relations between management and healthcare staff have reached a tipping point nationwide.

We're seeing the effects in the barrage of news (https://www.beckershospitalreview.com/hr/us-healthcare-workers-walk-off-the-job-7-strikes-in-2023.html?oly_enc_id=3736G5762401J7B) **about fed-up nurses and other hospital and patient care workers who—activated through collective bargaining units—have started walking out.** Bureau of Labor Statistics data show that 13% of healthcare professionals are union members, most notably 20% of nurses.

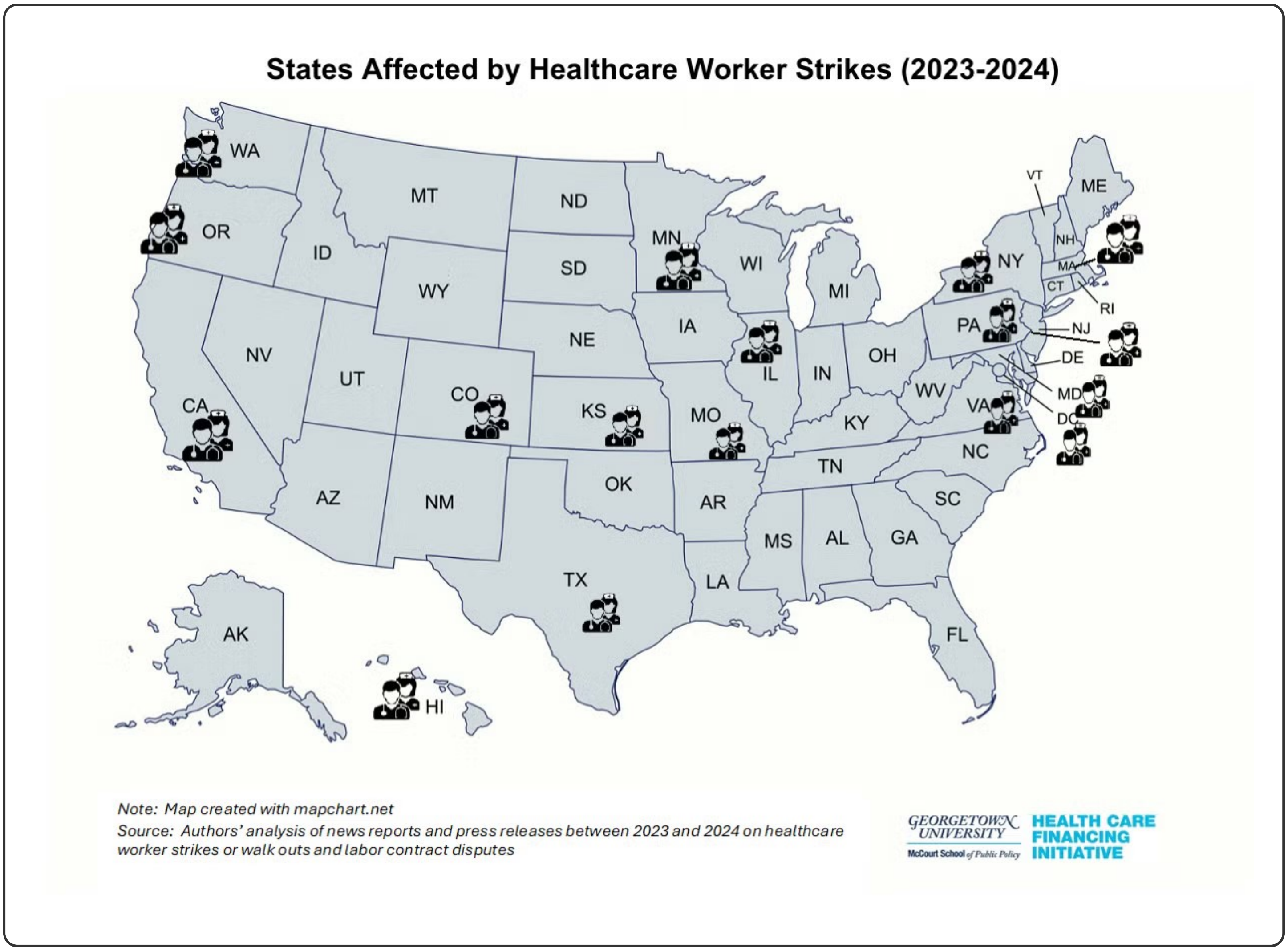
In aggregate, hundreds of thousands of healthcare workers are represented by unions[1,2] in these strikes[3], signaling the wide reach of labor activism and demands for a new way forward.[4]

In 2023 and 2024, U.S. healthcare workers staged dozens of strikes, advocating better contract terms for working conditions, improved staffing ratios, higher pay, and better benefits—ironically, often including affordable healthcare coverage. The anger has spread. **Overall, the count for U.S. nurse strikes** (https://www.nursetogether.com/nurse-strikes/) **has more than tripled from 2020 to 2023, according to NurseTogether.com, and 2024 looks to exceed 2023 numbers.**

Nurses—the most prevalent profession in health systems and **20% of America's healthcare workforce**–have **led the wave**, although work stoppage actions also included a range of clinical, support, and administrative professionals.

Interestingly, strikes occurred in both for-profit and nonprofit hospitals, with some of the largest for-profit health systems such as HCA Healthcare and Ascension being frequent targets. Not-for-profit giants such as Kaiser Permanente and Providence Health also were focuses of the outrage. **The 2023 work stoppage at Kaiser Permanente alone involved more than 75,000 workers.**

In addition, public university-affiliated hospitals such as St. Louis University Hospital in Missouri and Robert Wood Johnson University Hospital in New Jersey faced worker unrest.



Also, such disputes are no longer private—they're being contested **in meeting rooms**, **on the street**, and **in the press** with large numbers of workers showing up and speaking out. In October 2023, for example, **75,000 workers at Kaiser Permanente staged a three-day strike—the largest strike ever in the U.S. healthcare industry.**

And as recently as late October 2024, **mental health workers added themselves to the roster of professionals walking out** during contract negotiations with Kaiser Permanente**.** While the rising tide of work stoppages is remarkable, leaders should not be surprised that **essential workers remember the widespread**

acknowledgement[5,6,7,8] that they rightly deserve to earn wages commensurate to their vital services or at minimum should have compensation packages that allow them to live and care for their own families in the places they care for patients.

Our team at the Georgetown University Health Finance Initiative anticipated this ascent of the "essential worker" in Looking Back to Look Forward (https://bit.ly/HCFI_Collection202208).[9] Since then, less has been written or said about what tradeoffs are ahead to put things right between health systems and health workers. **Could the upheaval usher in a win-win for healthcare consumers and workers alike?**

Possible positive outcomes include **improved retention of essential caregivers, realignment of staffing and boundaries of professional healthcare to better meet worker needs, and wider adoption of and openness to policies and investments that foster improved systemwide accountability for patient outcomes.** Negotiations have resulted in dozens of new contracts–some with modest wage gains under 5% over a number of years, but many with wage gains in excess of 20% , 30% or more over the upcoming three- or four- year contract term[10].

We will continue watching with interest and monitor any shifts in state-by-state union participation as this reordering of the healthcare workforce proceeds. At the moment, though, the only key agreement among patients, providers, and payers alike is that much is at stake.

With labor costs topping the expense line in every hospital budget, it remains to be seen which healthcare providers will reach sustainable terms that resolve these labor-contracting dilemmas to the satisfaction of all involved.

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Health Care Financing Initiative

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Big Pharma raked in USD 90 billion in profits with COVID-19 vaccines

news Esther de Haan 27 February 2023

Pfizer, BioNTech, Moderna, and Sinovac made an extraordinary USD 90 billion in profits on their COVID-19 vaccines and medicines in 2021 and 2022. SOMO's new report *Pharma's Pandemic Profits* shows that these enormous gains are largely due to decades of research funded by public investment, billions in grants for development and production, and tens of billions in Advanced Purchase Agreements (APAs) with governments.

Pfizer alone generated USD 35 billion net profits on its COVID-19 related products during 2021 and 2022. BioNTech and Moderna made USD 20 billion each, while Sinovac pocketed USD 15 billion. ⓘ

Pharma's Pandemic Profits

Pharma profits from COVID-19 vaccines

Esther de Haan & Albert ten Kate

February 2023

Pharma's Pandemic Profits (pdf, 744.88 KB)

Download

As health policy-makers globally review the lessons learned during COVID-19, it is imperative that they agree on strong measures to prevent such extreme profiteering at the expense of tax payers in the future. The Pandemic Accord, a new international instrument on which negotiations start this week, recognises the need for governments to attach conditions to public funding of medical research and development. However, the draft text published earlier this month falls far short of making conditions on pricing, profit margins, and equitable access mandatory.

> "Without mandatory rules here, little will change. Corporate giants will continue to receive unconditional public funding and negotiate perverse deals. Public funding has to serve the public interest, which means affordable and safe medicines that are accessible to all, not super-profits for Big Pharma."

Esther de Haan
Senior Researcher at SOMO

Billions of public funding and APAs, no strings attached

In the midst of the pandemic, governments spent billions in funding to support vaccine research and development. Seven vaccine producers received at least USD 5.8 billion in public funding, with the US government being the largest funder, providing USD 5 billion. Agreements made did, as far could be established, not include obligations for the companies to return the funds, not even when large profits were made.

The vaccine producers benefitted even more from Advanced Purchase Agreements (APAs), which give upfront financing for development and production while transferring risk from suppliers to buyers. Pharmaceutical companies received at

least USD 86.5 billion through these APAs. De Haan: "The exact amount is hard to pin down and could well be much higher because companies and governments have not been transparent about their deals. As far as we could establish, these agreements did not require companies to return money used to develop and produce vaccines, even when development failed, and the vaccine was never delivered."

COVID-19 Vaccines sold dearly

Despite receiving huge sums through publicly-funded grants and APAs and making substantial profits from the outset, Pfizer/BioNTech and Moderna chose to increase the price of their vaccines by 56% and 73% respectively between 2020 and 2022. As fewer vaccines will be sold in the years to come, both companies have already announced to quadruple their latest known prices this year in an apparent bid to maintain great profitability.

Vaccine inequity

The report concludes that governments and international organisations must ensure that the benefits of public investment in research and development, as well as production, do not lead to such exorbitant profits and are shared more equitably, particularly with low-income countries. De Haan: "Companies have blatantly gone for profits and have been favouring deals with high-income countries, that would pay a higher price per dose. Governments of high-income countries have been pushing out low-income countries as well, by making deals with all the vaccine producers and claiming more vaccines than they needed."

Symptom of systemic crisis

This month, the massive profits raked in by oil majors such as Shell and Exxon and food multinationals such as Unilever and Ahold-Delhaize have been at the forefront of the news. At a time when ordinary people are struggling with rising costs of living, Big Oil and Big Food are getting super wealthy, and so is Big

Pharma. While the oil majors make money from driving climate change and profit from a war-related economic disruption, and food multinationals take advantage of inflation to artificially raise their prices, the pharmaceutical companies profit from a global pandemic and through an enormous influx of public money. These massive profits of big business are deepening wealth inequality across the globe.

Do you need more information?

Esther de Haan
Senior Researcher

Growth at all costs **Pharma**

news  Esther de Haan 27 February 2023

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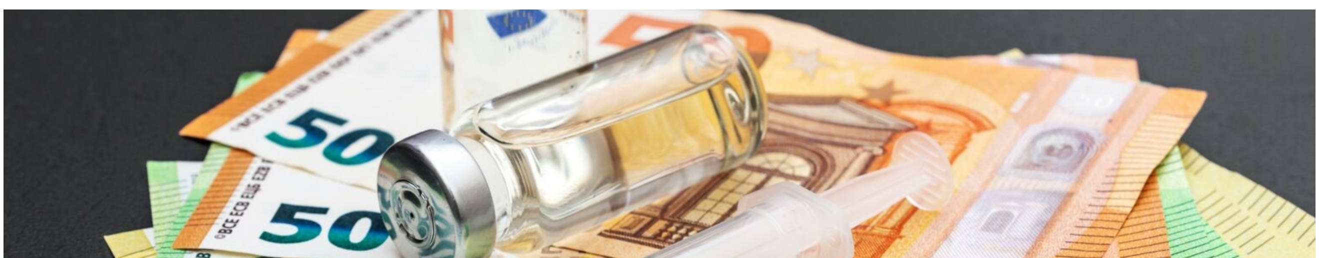

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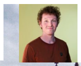
news  Vincent Kiezebrink

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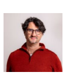
opinion  Rodrigo Fernandez

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AXIOS

Jul 20, 2023 - Health

Many hospitals posted record margins during pandemic, study finds

Arielle Dreher

Illustration: Lazaro Gamio / Axios

COVID relief funds helped almost 75% of U.S. hospitals post positive operating income during the height of the pandemic, according to a new analysis that questions if the federal aid was too generous or misdirected.

Why it matters: The findings counter the industry narrative that the pandemic left many facilities in the red and grappling with the surging costs of care amid supply chain and labor shortages.

- Hospital operating margins — the difference between operating revenues and expenses — hit an all-time high during the first two years (2020 and 2021) of the pandemic, per the analysis in *JAMA Health Forum*.

- The fact that some facilities not only survived but thrived during the first two years of the pandemic might help explain how hospital margins are continuing to improve after a challenging 2022, when costs kept increasing and inflation ate

to improve after a challenging 2022, when costs kept increasing and inflation ate into many health systems' investments.

What they found: Of the more than 4,223 hospitals analyzed, average operating margins increased from 2.8% before the pandemic to 6.5% from 2020 to 2021.

- More than 2,000 hospitals (53%) didn't experience financial distress due to COVID-19 even without relief funds, but nearly three-quarters of those facilities received relief funds anyhow.

What they're saying: "This resulted in moving many hospitals to peak historical operating margins (i.e., profitability), rather than simply restoring them to prepandemic operating margins," the authors wrote.

- While policymakers had to react quickly on emergency relief, "it will be important to consider alternative ways of allocating scarce public dollars to support our nation's health system in crisis," they continued.

The other side: Nearly half of hospitals still have negative operating margins today, per the American Hospital Association.

- 2022 was "the worst year of the pandemic financially for hospitals and health systems, due to the rapid increase in expenses and the massive spike in COVID volume from the Omicron surge early that year," Aaron Wesolowski, vice president of policy research at AHA, said via email.

- The *JAMA Health Forum* study does not include 2022 in its scope, and the hospital association maintains many of its members are still struggling.

- "Incomplete analyses like this are not reflective of the many immense struggles and challenges the hospital field has faced and continues to face, including a workforce shortage crisis, along with skyrocketing input costs for supplies, equipment, drugs and labor, and persistent inflation," Wesolowski said.

Between the lines: Teaching hospitals, disproportionate-share hospitals and facilities in urban centers received more COVID funding from the government than other facilities, the analysis found.

- About 6.4% of hospitals studied did experience significant financial losses when the pandemic hit, reporting negative operating incomes with a median decline of $8.9 million.

- COVID-19 funding was crucial particularly for government-run hospitals as well as safety-net facilities.

Be smart: Hospitals treating higher proportions of Hispanic individuals experienced the most pandemic-related financial distress, the analysis found.

- That "suggests that hospitals treating certain underserved communities were not funneled funds to offset their outlays on COVID-19 care and/or preparation," Risha Gidwani, study coauthor with Rand, said via email.
- These findings echo an HHS Office of Inspector General report this month that found hospitals with larger populations of Hispanic residents received fewer Provider Relief Funds in 2020.
- Investigators recommended acknowledging disparities in future emergencies.
- "It may be especially important to consider HHS's goal to reduce health disparities when allocating emergency funding to rural communities in the future," the OIG report says.

The bottom line: "COVID-19 relief funds went to some hospitals that did not need financial support or the amount of funding allocated," the authors of the analysis wrote.

Go deeper

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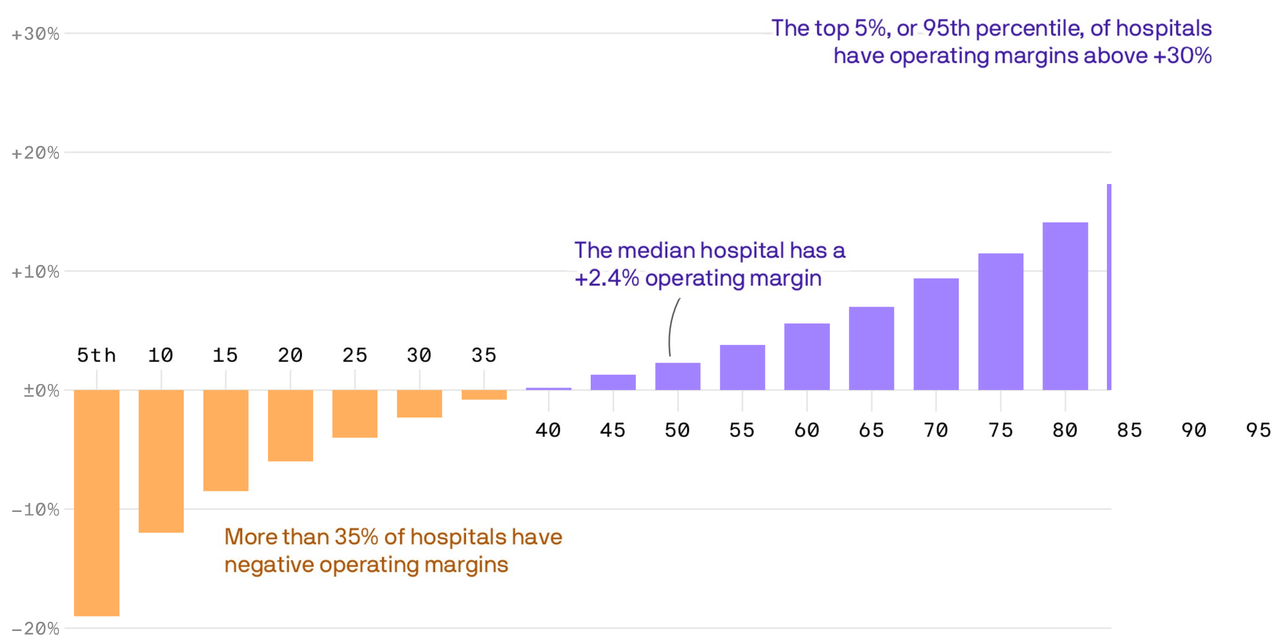
Apr 26, 2024 - Health

Hospitals mount uneven recovery from the pandemic

2023 hospital operating margins, by percentile

Sample of at least 1,300 U.S. hospitals



Data: Kaufman Hall National Hospital Flash Report; Chart: Erin Davis/Axios Visuals

Some health systems have recovered from the pandemic much better than others, and those with healthier margins tend to be the ones that made a stronger push into outpatient care.

The big picture: There's a wildly large and growing difference between the operating margins of top-performing health systems and those at the bottom, according to Kaufman Hall data shared with Axios.

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Adriel Bettelheim
Oct 3, 2023 - Health

Hospitals' post-COVID fortunes improving

Illustration: Lazaro Gamio/Axios

Rising revenue helped hospitals balance out higher supply and drug costs in August, stabilizing the sector's financial performance and keeping operating margins in positive territory, a new Kaufman Hall report finds.

The big picture: The industry's post-pandemic fortunes continue to improve as patients return to more normal patterns of care. But the positive trend line comes as Congress weighs Medicare changes that could reduce payments to health systems.

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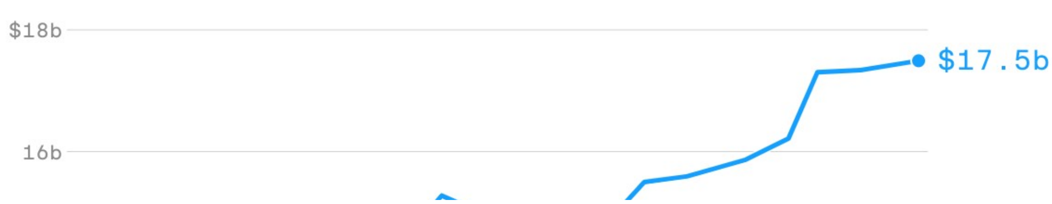
HCA Healthcare revenue

Quarterly; Q2 2019 to Q2 2024



Data: Company filings with the Securities and Exchange Commission; Chart: Axios Visuals

Some of America's largest hospital systems saw their financials soar in the first half of 2024. And yet, more than 700 facilities across the country still are at risk of closing.

Why it matters: It's a familiar tale of the rich getting richer, as big, mostly for-profit health systems see improved margins while smaller facilities in outlying areas are barely hanging on.

Go deeper (2 min. read)

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FEDS Notes

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September 08, 2023

Corporate Profits in the aftermath of COVID-19[1]

Berardino Palazzo†

Overview

This note documents the behavior of corporate profit margins during and in the aftermath of the pandemic. As the traditional measure of corporate profit margin is heavily affected by fiscal support and its withdrawal, it also proposes an alternative measure. The note also provides insights on the dynamics of profit margin at firm level.

In the aftermath of COVID-19, inflation increased to levels that the U.S. economy has not witnessed for more than 40 years. This phenomenon has spurred a large quantity of policy commentary and academic research discussing its causes.[2] One popular narrative goes as follows: in the aftermath of the COVID-19 pandemic, and amid a surge in demand and contemporaneous supply chain bottlenecks, corporate businesses increased the price of their final goods and services above and beyond what was justified by changes in labor costs and input prices. The outcome was a marked increase in profit margins that has contributed to overall inflation.[3]

But were corporate profit margins abnormally high in the aftermath of the COVID-19 pandemic? The answer depends on measurement. Using a measure of nonfinancial corporate profits from the national income accounts–before tax profits with capital consumption adjustment–we find that nonfinancial corporate profit margins, or profits over gross value added, increased sharply to about 19% in 2021q2 and slipped back to 15% in 2022q4, compared to about 13% in 2019q4. This contrasts sharply with the steep dive in margins that normally occurs during a severe economic contraction.

Our analysis shows that much of the increase in aggregate profit margins following the COVID-19 pandemic can be attributed to (i) the unprecedented large and direct government intervention to support U.S. small and medium sized businesses and (ii) a large reduction in net interest expenses due to accommodative monetary policy. Once we adjust for fiscal and monetary interventions, the behavior of aggregate profit margins appears much less notable, and by the end of 2022 they are essentially back at their pre-pandemic levels.

Given the non-negligible effect of government intervention on the overall corporate profit margin, we highlight a different measure of corporate profitability. Specifically, we calculate the nonfinancial corporate net capital share, that is, the amount that remains for debt as well

as equity holders after paying labor costs and the cost associated with the wear and tear of installed capital. This profitability measure tells quite a different story. First, the net capital share plummeted at the onset of the COVID-19 pandemic, as one would expect in a recession. Second, the net capital share rebounded to a value only 2.5 percentage points higher than its pre-pandemic level (while the aggregate profit margin rebounded to a value 6 percentage points higher than its pre-pandemic level) and then declined to its 2019q4 level by the end of 2022.

In the second part of this note, we explore the profit margins of a large pool of publicly traded nonfinancial U.S. firms. The benefit of focusing on these firms is twofold. First, the large majority of firms did not directly benefit from the large fiscal intervention and, as a consequence, their profit margins dynamics are more in line with what happened line during past recessionary episodes. Second, having firm-level profit margins allows us to explore differences in corporate profit margins dynamics across firms. We find that for the largest firms (as measured by their total revenues) profit margins have not deviated significantly from their pre-COVID-19 trend, while for middle- sized firms, profit margins have remained significantly lower in the aftermath of the COVID-19 pandemic. Overall, the firm-level analysis supports the view that nonfinancial corporate profits margins were not abnormally high in the aftermath of COVID-19.

An aggregate perspective

In our analysis, we use a measure of before tax profit margins that includes an adjustment for capital consumption.[4] In particular, this profit margin measure can be recovered following:[5]

$$1 - \frac{Unit\ Labor\ Costs}{Price} - \frac{Unit\ Non\text{-}Labor\ Cost}{Unit\ Price} - \frac{IVA}{GV\ A}$$

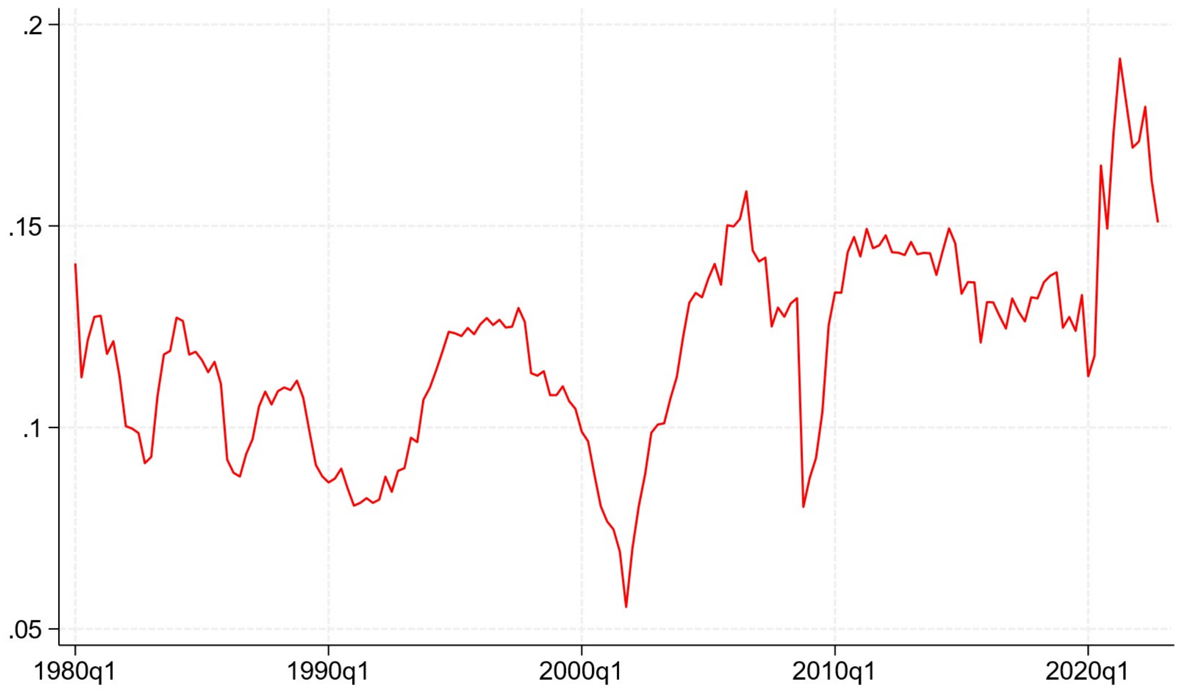
In the above expression, price, unit labor costs and unit non-labor costs are expressed in units of gross value added for the non-financial corporate business sector. The first three terms deliver the before tax non-financial corporate business profit margin with capital consumption and inventory valuation adjustment. The last term subtracts the inventory valuation adjustment (as a percentage of gross value added) to make this measure of profit margin more comparable with that measured in financial reports.

The way of calculating profit margins is particularly useful for the purpose of this note as it allows us to uncover the role played by non-labor costs in shaping corporate profitability in the aftermath of COVID-19. Specifically, unit non labor cost is the sum of:

- Consumption of fixed capital, which accounts for the decline in the value of installed capital due to wear and tear;
- Taxes on production and imports less subsidies plus business current transfer payments;
- Net interest and miscellaneous payments.

Figure 1 reports the non-financial corporate profit margin for the period 1980q1-2022q4. The large increase in profitability following the COVID-19 pandemic stands out. The profit margin increased from 11.3% in 2020q1 to 19.2% in 2021q2. Thereafter, this quantity steadily declined and reached 15.1% in the last quarter of 2022, a value comparable to the one immediately after the Global Financial Crisis.

Figure 1. Non-Financial Corporate Profit Margins



Note: This figure depicts the aggregate non-financial corporate profit margins adjusted for capital consumption for the period 1980q1-2022q4.

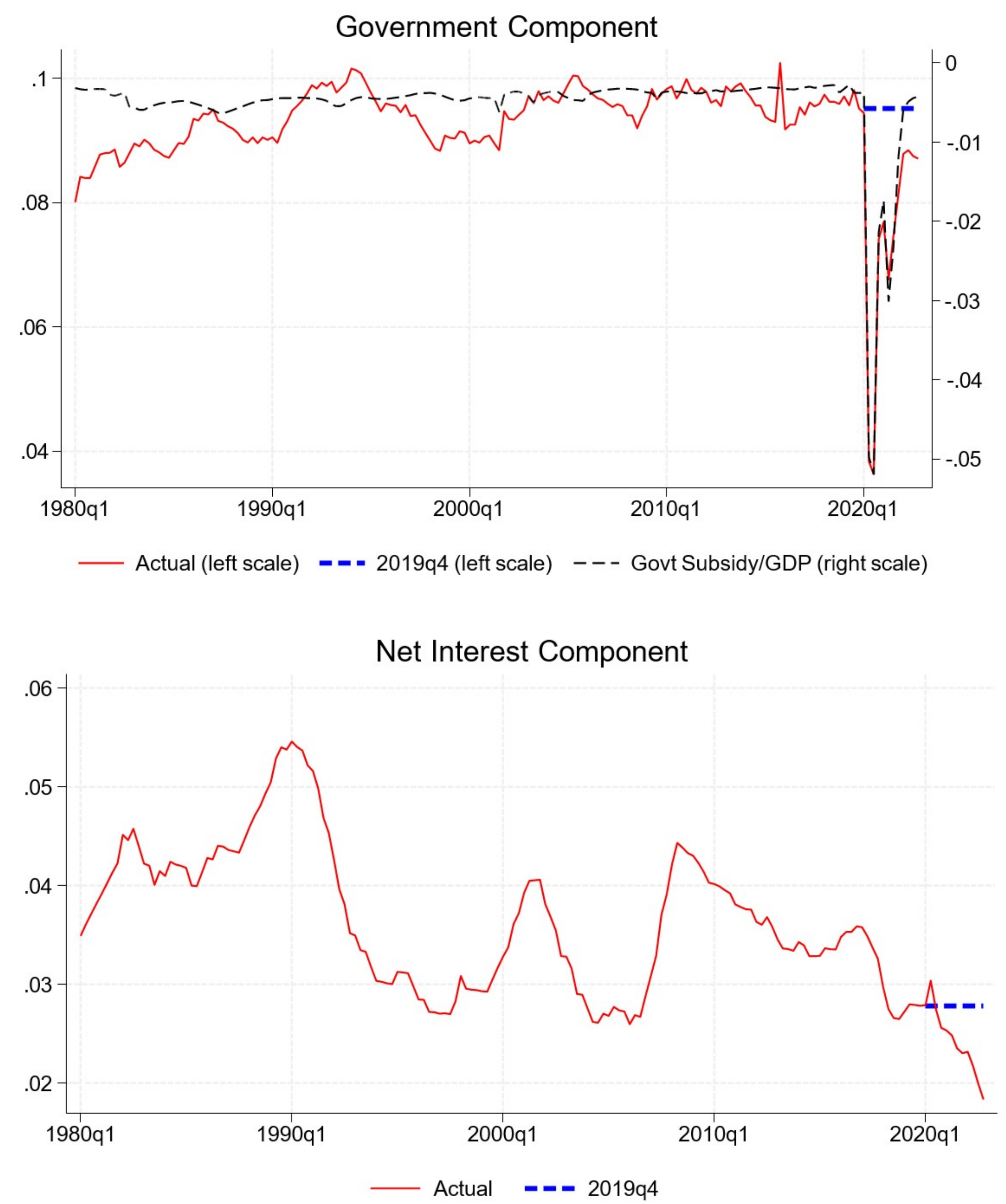
Source: U.S. Bureau of Economic Analysis.

Accessible version

Why do we observe such a large increase in profit margins? Figure 2 provides some clues. Because of the COVID-19 pandemic, there was unprecedented support for U.S. businesses via the Coronavirus Aid, Relief and Economic Security Act (CARES) of 2020, the Paycheck Protection Program and Health Care Enhancement Act of 2020, and the American Rescue Plan Act of 2021.[6] These programs greatly increased the subsidy component of non-labor cost, thus providing a large boost to corporate profits. The top panel of Figure 2 shows that over the period 1980q1-2019q4, the government-related component of non-labor cost fluctuates between 8 percentage points and 10 percentage points, with an average value of 9.4 percentage points. In 2020q2 this component drops to 3.8 percentage points, about 13 standard deviations below the average value over the previous 40 years.[7] The dramatic movement in the government-related component post-2019 almost perfectly correlates with

the government subsidy-to-GDP ratio (dashed black line, top panel), thus leaving little doubt that higher subsidies contributed to higher profit margins.

Figure 2. Non-Financial Corporate Profit Margins: Government and net interest components



Note: This figure depicts the government-related (top panel solid red line) and the net interest (bottom panel solid red line) components of non-labor costs over the period 1980q1-2022q4. The government-related component includes taxes on production and imports less subsidies plus business current transfer payments. The dashed black line in the top panel depicts the negative of government subsidies over GDP. In both panels, the dashed blue lines are the 2019q4 values.

Source: U.S. Bureau of Economic Analysis.

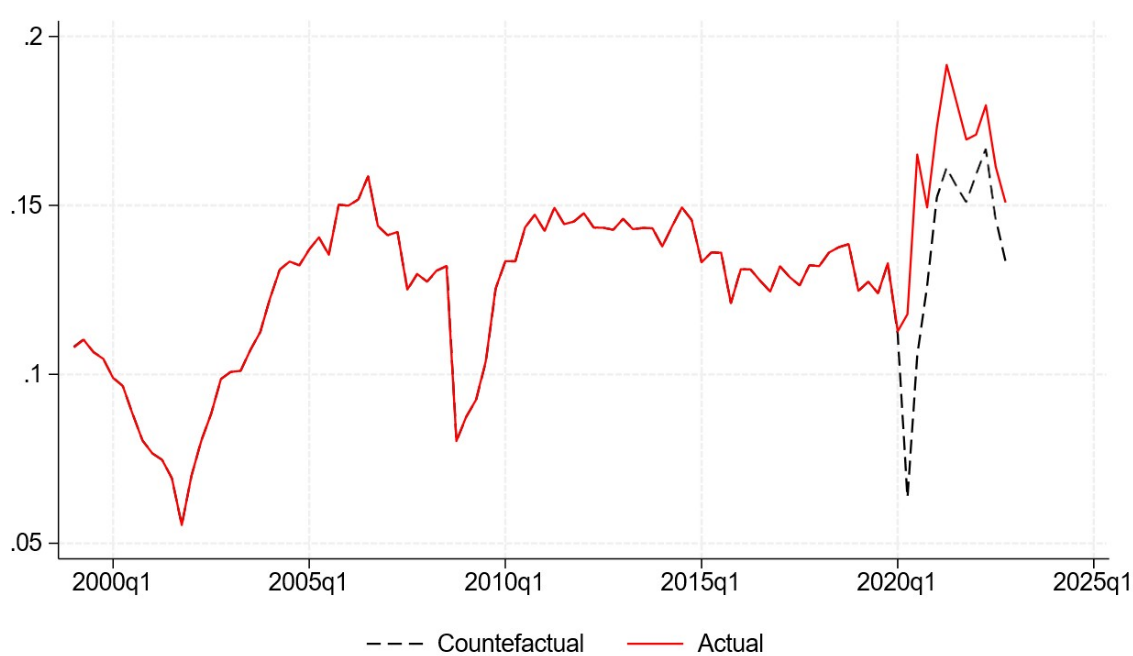
Accessible version

At the same time, profit margins also received a boost over the 2020q1-2022q4 period by a rapid decline in interest expenses (bottom panel of Figure 2). The decline was driven by many companies refinancing their obligations to ensure lower interest payments going forward.[8] As a consequence, the interest share of value added declined from by about 2.8 percentage points in 2019q4 to 1.8 percentage points in 2022q4, thus contributing to an increase in profit margins of 0.01 (or 1 percentage point) during that period.

To properly account for the effect of firms' market power on the aggregate profit margin dynamics, one should adjust the latter quantity for the unprecedented government intervention, especially because this intervention almost exclusively benefited smaller firms, which admittedly have very little market power. To this end, we recalculate the latter value assuming that (i) the government component had remained fixed at its 2019q4 value over the period 2020q1-2022q4 (dashed blue line in top panel of Figure 2) and (ii) the net interest component would have stayed fixed at its 2019q4 value over the period 2020q1-2022q4 (dashed blue line in bottom panel of Figure 2).

We report this adjusted profit margin together with the actual profit margin in Figure 3. Without the historically outsized government fiscal intervention and accommodative monetary policy, non-financial profit margins during 2020-2021 would have been more in line with past episode of large economic downturns. Overall, profits margins would have been, on average, 0.025 lower during the period 2020q2-2021q4.[9]

Figure 3. Adjusted Profit Margins



Note: This figure reports the aggregate non-financial corporate profit margins (red line) together with the adjusted profit margins under the assumption of constant (i.e., 2019q4 value) government and net interest components (dashed black line) for the period 2020q1-2022q4. To facilitate the comparison, we restrict the sample to the period 1999q1-2022q4.

Source: U.S. Bureau of Economic Analysis and author's calculations.

Accessible version

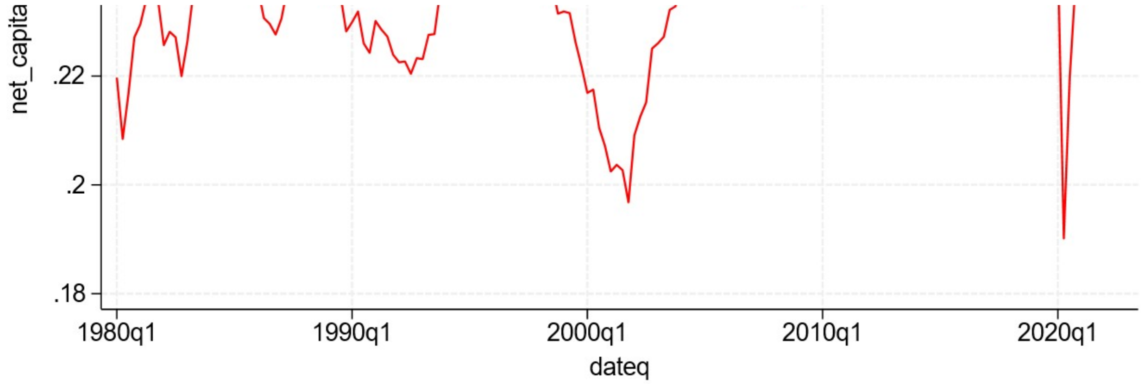
The analysis performed so far makes clear that the massive government intervention during the period 2020-2021 affects aggregate non-financial corporate profit margins to an extent that makes it difficult (i) to perform historical comparisons and (ii) to properly assess how economic forces like market power, productivity, supply chains bottlenecks, and increases in energy prices, among other forces, have shaped the aggregate profit margin in the last couple of years. For this reason, we shift to an alternative profitability measures that is not directly affected by fiscal and monetary policies might be necessary.

In particular, we focus on the net capital share, defined as the difference between revenues and the sum of labor cost and capital consumption scaled by revenues, that is:

$$1 - \frac{Unit\ Labor\ Costs}{Price} - \frac{Consumption\ of\ Fixed\ Capital}{Price}$$

The net capital share is what all capital owners (debt and equity holders together) are left with after paying labor costs and the cost associated to the wear and tear of installed capital. Figure 4 reports the net capital share for the period 1980q1-2022q4. We can see that the sudden COVID-19 recessionary episode caused a sharp drop in the net capital share which is much more pronounced than the drop in profit margins. This result is not surprising since the capital share is unaffected by a change in net government subsidies or net interest expense. After the sharp drop, the capital share rebounded to higher levels than just before the Covid-19 pandemic, but it has remained well below its historically high values witnessed in the aftermath of the Global Financial Crisis. Moreover, the net capital share at the end of 2022 (0.260) is almost back to its value immediately before the COVID-19 pandemic (0.254 in 2019q4).

Figure 4. Net Capital Share



Note: This figure reports the net capital share for non-financial corporations forNet Capital Share the period 1980q1-2022q4.

Source: U.S. Bureau of Economic Analysis.

Accessible version

To summarize, the profit margin dynamics in the aftermath of COVID-19 is heavily affected by unprecedented government intervention, which contributed to a substantial in- crease in profit margins adjusted for capital consumption. When we focus on the net capital share, which is not directly affected by government intervention, we do see a rebound in profitability after a sharp collapse, but this rebound does not look historically abnormal.

A firm-level perspective

Another perspective on profit margins can be gained by focusing on the financial accounting data of publicly-traded nonfinancial corporations. These firms are very likely to have market power and most of them did not benefit directly from the extraordinary fiscal packages, which were targeted to small and medium sized firms.

We calculate the firm-level profit margin as:

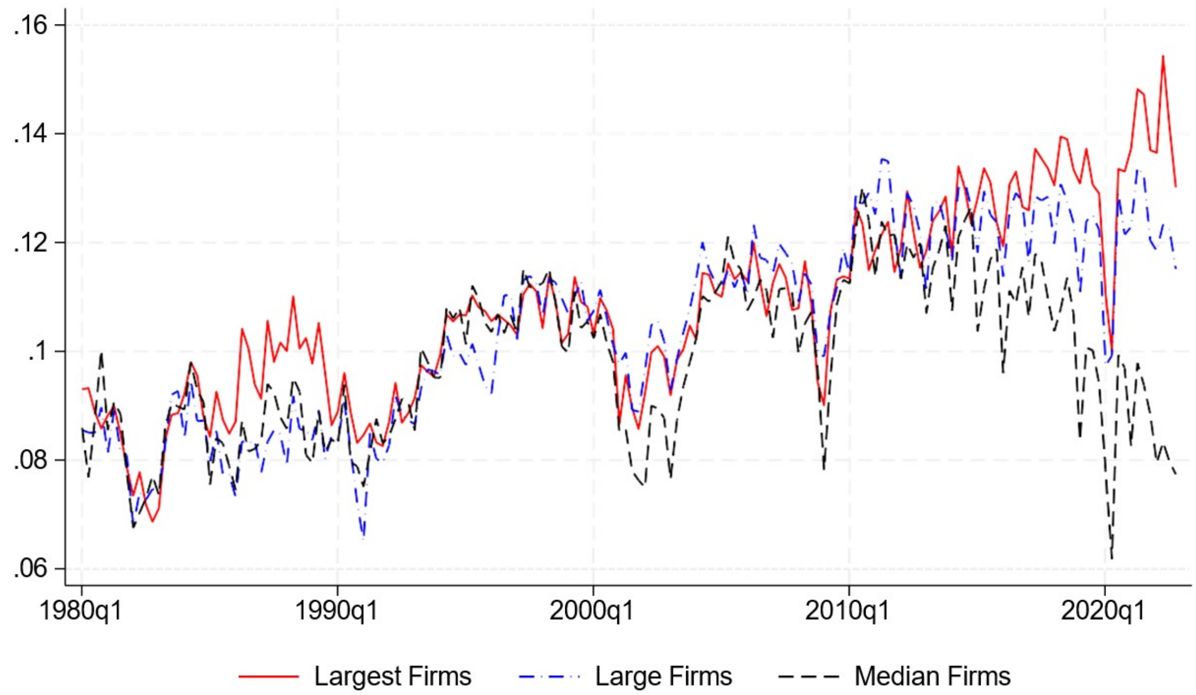
$$1 - \frac{COGSQ}{SALEQ} - \frac{XSGAQ}{SALEQ} - \frac{XINTQ}{SALEQ}$$

where *COGSQ* is cost of goods sold; *XSGAQ* is Selling, general and administrative expenses; *XINTQ* is interest and related expenses.[10]

To take advantage of the firm-level data, we calculate the median profit margin by size categories over the period 1980q1-2022q4. We calculate size categories using quintiles of the total sales distribution in the quarter that precedes the calculation of the profit margin. In Figure 5 we compare the median profit margins for the largest firms (top 20% of the size distribution, red solid line), large firms (fourth quintile of the size distribution, dashed- dot blue line), and median firms (third quintile of the size distribution, dashed black line). The profit margins across these three size categories moved very close together until the beginning of the 2010s, after that we see three distinct patterns: the largest firms profit margins display an

increasing trend, the large firms profit margins are flat, and the medium firms profit margins follow a decreasing trend.

Figure 5. U.S. Nonfinancial Publicly Traded Companies Profit Margins



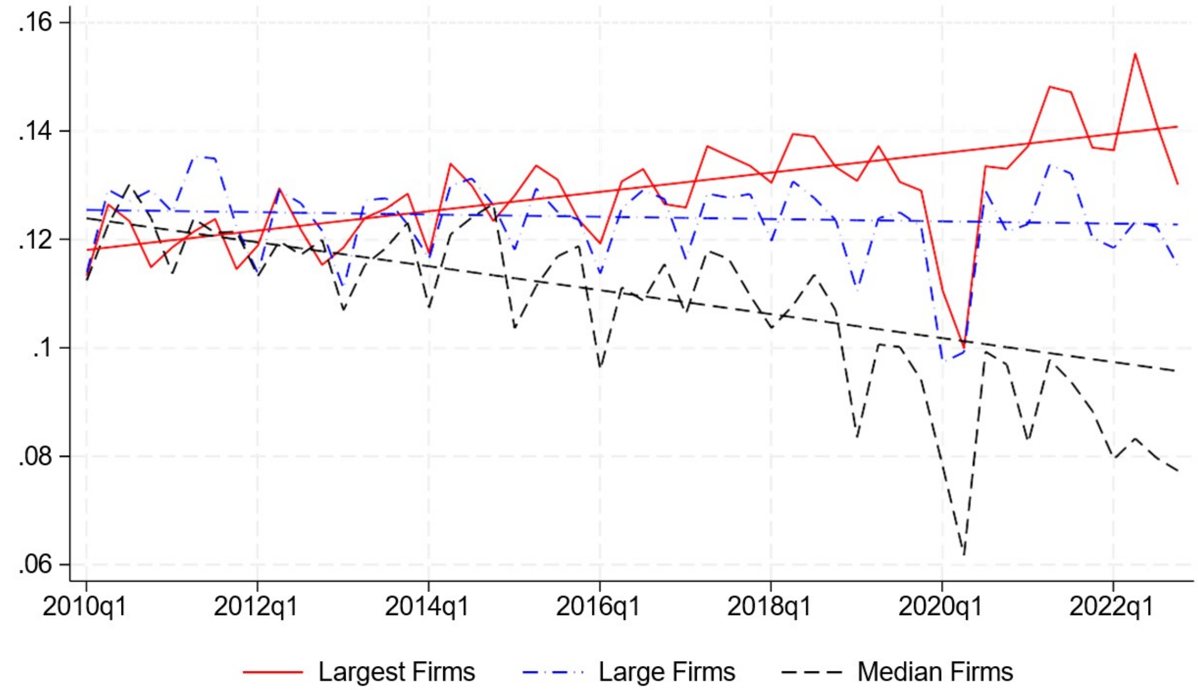
Note: This figure depicts the profit margins for the largest firms (top 20% of the size distribution, solid red line), large firms (fourth quintile of the size distribution, dashed-dot blue line), and medium firms (third quintile of the size distribution, dashed black line) for the period 1980q1-2022q4.

Source: Standard & Poors Global Market Intelligence: Compustat Unrestated Quarterly Data, (June 2023)

Accessible version

Did profit margins deviate significantly from these trends during the period 2022q1- 2022q4? To answer this question, we estimate a time trend for the three different size categories over the period 2010q1-2019q4 and compare in Figure 6 the deviations of profit margins from their time trend in the 2022q1-2022q4 period. While for the firms in the two largest groups we do not see a pronounced deviation from their pre-COVID19 trend, we see a clear deviation from trend for the medium-sized firms. In the latter case, profit margins have remained constantly below their pre-COVID19 trend and they have diverged dramatically from the profit margins of the largest firms. In 2010q1, the profit margins of the largest and middle firms where both around 11 percent, while in 2022q4 the profit margins of the largest firms increased to 13 percent, while the profit margins of middle firms decreased to 8 percent.

Figure 6. U.S. Nonfinancial Publicly Traded Companies Profit Margins vs 2010q1-2019q4 trend



Note: This figure depicts the profit margins for the largest firms (top 20% of the size distribution, solid red line), large firms (fourth quintile of the size distribution, dashed-dot blue line), and medium firms (third quintile of the size distribution, dashed black line) for the period 2010q1-2022q4 together with their linear time trend estimated over the period 2010q1-2019q4.

Source: Standard & Poors Global Market Intelligence: Compustat Unrestated Quarterly Data, (June 2023) and author's calculations.

Accessible version

Concluding remarks

Corporate profit margins were not abnormally high in the aftermath of the COVID- 19 pandemic, once fiscal and monetary interventions are accounted for. This conclusion is supported by the behavior of the net capital share, which remained well below its historical high levels, and by firm-level profit margins across different size categories, which behaved broadly in line with their pre-COVID trends. If there is any anomaly to note, it should probably be that the aftermath of the COVID-19 pandemic has been characterized by a persistent weakness in the profitability of middle-sized publicly traded firms.

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1. We thank Francisco Palomino, Michael Palumbo, Steve Sharpe, Nitish Sinha, and Michael Smolyansky for comments and suggestions. The views expressed are those of the authors and do not necessarily reflect those of the Federal Reserve Board and Federal Reserve System. Return to text

2. Bivens and Banerjee (2023) provide a list of likely drivers of the inflation surge. Comin, Johnson, and Jones (2023) propose a New-Keynesian framework to study the role of supply chain constraints and find that these constraints can explain about half of the price level increase. Bernanke and Blanchard (2023) link the surge in inflation to increase in commodity prices and sectoral shortages, consistent with the findings in Comin et al. (2023). Bianchi, Faccini, and Melosi (2023) relate the persistent high inflation to unfunded fiscal policy shocks. Return to text

3. Weber and Wasner (2023), Konczal and Lusiani (2022), Br¨auning, Fillat, and Joaquim (2022), Glover, Mustre-del R´ıo, and von Ende-Becker (2023), among many others, study the link between the 2021-2022 inflation surge and corporate profits. During the same period, Andler and Kovner (2022) find that the relationship between inflation and corporate profits was not unusual in historical terms and Conlon, Miller, Otgon, and Yao (2023) find little empirical support for a strong correlation between firm-level markups and price changes. Return to text

4. The BEA uses a different capital depreciation measure from the one reported by businesses in their tax returns. The capital consumption adjustment takes care of this discrepancy. Return to text

5. This measure is equivalent to the ratio of before tax non-financial corporate business profits, (BEA account code

*A*464*RC*1), plus the capital consumption adjustment, (*B*456*RC*1), over the non-financial corporate business gross value added, (*A*455*RC*1). Return to text

6. Federal government subsidies amounted to about $1.1 trillion over the period 2020q1-2021q4. The lion share of these subsidies, about $800 billion, were allocated for Paycheck Protection Program (PPP) loans to small businesses. Return to text

7. An increase in the subsidy component generates a decrease of the item "Taxes on production and imports less subsidies plus business current transfer payments", thus contributing to an increase in the overall profit margin due to a lower non-labor cost component. Return to text

8. http://www.wsj.com/articles/pandemic-supercharged-corporate-debt-boom-record-11623681511?page=1 Return to text

9. We are aware that this is a partial equilibrium analysis and that corporate profit margins might have been actually different under the adjusted scenario. It is very likely that without government interven- tion, profitability would have deteriorated further and that the adjusted profit margin we calculate can be considered an upper bound for such a case. Return to text

10. If *XSGAQ* is missing, we use the difference between operating expenses (XOPRQ) and cost of goods sold. if *XINTQ* is missing, we replace the missing value with zero. We also exclude from our sample firms that are not incorporated in the U.S. (*FIC* code different from *US*), and firms belonging to the financial sector (SIC codes between 6000 and 7000), utilities (SIC codes between 4900 and 5000) and quasi-government firms (SIC codes larger or equal to 9000). Furthermore, we only consider firms traded in the three major stock exchanges. Return to text

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